# OpenFed

POLICY STATEMENT | April 24, 2019

PREDICTED FED DECISION **HOLD**

**2.25%-2.50%**

OPENFED OPTIMAL RATE **−50 bps**

**1.75%-2.00%**

KEY TAKEAWAY

**The Committee unanimously expects the real Federal Reserve to hold at 2.25-2.50%, yet its own framework judges the loss-minimizing policy to be a 50 bps cut, with members split on that magnitude.**

## STATEMENT

The most striking feature of this meeting is the distance between what the Committee expects and what its own framework judges best. On the predictive question, all five members arrived independently at the same conclusion: no change to the target range of 2.25 to 2.50 percent. Core PCE at 1.26 percent sits well below the 2 percent objective, which removed any case for tightening even among members most attentive to price risk; the tight labor market, with unemployment at 3.8 percent against an estimated 4.6 percent natural rate and initial claims at 192,000, gave no employment deterioration to lean against. Financial conditions reinforced the stand-pat reading throughout. The financial stress index at 0.036, the VIX at 13.14, and a Baa spread of 2.14 pointed to calm, functioning markets, while the 3-month T-bill spread of +0.025 and a positive but flat 10y-2y spread of 0.21 indicated markets pricing no imminent move. With the current range midpoint essentially at the FOMC's own most recent median projection of 2.4 percent, members judged there was no compelling reason to move in either direction, and the Committee expects the real Federal Reserve to hold.

The Committee's independent policy framework, however, points elsewhere. Its loss-minimizing recommendation is a cut of 50 basis points. The reference rules cluster below current policy: the Taylor rule, the balanced-approach rule, and the ELB-adjusted rule each call for -75 bps, driven by the large inflation shortfall, while the more gradual first-difference rule reads -25 bps. The framework's -50 bps splits those signals. The decisive input is an estimated r-star of -0.5, which places neutral nominal policy near 1.5 percent and makes the current 2.25 to 2.50 percent range genuinely restrictive against sub-target inflation. Inflation momentum of -0.075 shows price pressures softening rather than stabilizing, so holding this range amounts to a passive tightening even without a nominal hike. A small unemployment-momentum term of +0.05 registers a faint upward drift beneath the strong headline. With the reference rules judged reliable and financial stress absent, the framework treats easing as a correction toward neutral rather than a crisis response.

In their deliberation over that recommendation, members converged on direction but divided sharply on magnitude. Those endorsing the full -50 bps argued that policy is quietly too tight: with inflation drifting away from target and r-star negative, restrictive policy risks entrenching an undershoot and eroding inflation expectations, a slow-building concern best addressed while markets are calm rather than in a later, forced scramble. On this view the move is preemptive insurance, for employment before any labor softening spreads and for inflation expectations before disinflation sets in. Members preferring a smaller step accepted the same logic on direction but resisted the size. They pointed to CFNAI at -0.15, indicating only mildly below-trend growth, to a Beige Book still describing slight-to-moderate expansion with only moderate wage growth, and to market pricing that did not demand front-loading. For them the first-difference rule's -25 bps better respected stable, not deteriorating, conditions, and a full 50 bps risked overshooting or, from the inflation side, re-igniting the very wage pressures a tight labor market could produce.

Weighing both, the Committee records its predictive judgment that the real Federal Reserve will hold at 2.25 to 2.50 percent, and, separately, its own considered conclusion that the loss-minimizing policy on these numbers is a cut of 50 basis points. The gap between the two is itself the finding: current policy appears more restrictive than either markets or the Committee's patience would suggest, and institutional caution, not the mandate math, is what delays the adjustment the framework identifies.

**COMMITTEE VOTE**

The predictive vote to expect a hold was unanimous, 5-0. On the framework's -50 bps recommendation, the Committee split 2-3: two members endorsed the recommendation as-is, and three agreed with the easing direction but favored a smaller move.

**NOTES**

*The predictive vote was unanimous; the substantive disagreement was on the optimal side, where three members declined to support the full -50 bps. They accepted that inflation at 1.26 percent with negative momentum and an r-star of -0.5 make policy restrictive and the easing direction defensible, but held that a 50 bps step exceeded what the data warranted given only mildly below-trend growth (CFNAI -0.15), continued slight-to-moderate expansion, calm markets, and near-flat short-end pricing (+0.025); they favored the first-difference rule's -25 bps as a more gradual move, with the inflation-focused member additionally wary that a larger cut into a tight labor market could re-ignite wage pressures.*